

# Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

## Look Before You Lease

To lease or to buy? That's the choice you face when mulling over makes and models and deciding which car deal best meets your needs. Leasing a car is not the same as buying one. When you buy, you own the car. When you lease, you pay to drive someone else's vehicle. Although leasing can involve lower monthly payments than a loan, at lease end, you will have no ownership or equity in the car.

The number of new car leases is skyrocketing. Before you decide whether to lease or buy, the Federal Trade Commission reminds you: don't be dazzled by so-called deals. Ask questions, nail down the details, read the fine print, and shop around.

If you're thinking of leasing, the FTC offers these shopping tips:

1. Shop as if you're buying a car. Negotiate all the lease terms, including the price of the vehicle. Lowering the lease price will help reduce your monthly payments. Get all the terms in writing.

2. Learn the language of leasing:

In a *closed-end lease*, you return the car at the end of the lease and "walk away," but you're still usually responsible for certain end-of-lease charges, such as excess mileage, wear and tear, and disposition.

In an *open-end lease*, you pay the difference between the value stated in your contract and the lessor's appraised value at the end of the lease.

*Lease inception fees* are payments you must make when the lease starts, and may include a down payment, security deposit, acquisition fee, first month's payment, taxes and title fees. Ask for a list of all charges due at lease inception. You may be able to negotiate some or all of the terms.

The *capitalized cost* is the price of the car for leasing purposes plus taxes and extra charges like service contracts and registration fees.

The *capitalized cost reduction* is similar to a down payment. If you're trading in a car, make sure the dealer applies the trade-in value to the price your lease is based on. The trade-in credit may reduce your down payment or monthly payments.

3. Ask whether extra charges will be assessed for excessive mileage, wear and tear, disposition and early termination, and find out the amount of these charges. Most leases allow you to drive 12,000 to 15,000 a year; if you put on more miles, expect a charge of 10 to 25 cents for each additional mile. You may think the ding in the door is normal wear and tear; to the lessor it may be significant damage. Check out penalties for an early return; expect to pay a substantial charge if you give the car up before the end of your lease.

4. Make sure the manufacturer's warranty covers the entire lease term and the number of miles you're likely to drive.

5. Consider "gap insurance" to cover the difference — sometimes thousands of dollars — between what you owe on the lease and what the car is worth if it's stolen or totaled in an accident.

6. Before you sign the deal, take a copy of the contract home and review it carefully away from any dealer pressure. Be alert for any charges that were not disclosed at the dealership, like conveyance, disposition, and preparation fees.

7. Federal law requires lessors to provide lease cost information before you sign the lease. Take a copy of the attached form to the dealer and ask them to complete it. Although these specific disclosures are not mandatory until January 1, 1998, dealers may be willing to provide the information now. If the dealer declines, consider shopping elsewhere.

For more information about buying or leasing a car, visit the FTC's web site at [www.ftc.gov](http://www.ftc.gov).

